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Integrated and coordinated implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic, social and related fields

Follow-up to the outcome of the Millennium Summit

Comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the following reports:[1]

(a) Report of the Secretary-General transmitting the report of the Steering Committee on the Comprehensive Review of Governance and Oversight within the United Nations and its Funds, Programmes and Specialized Agencies (A/60/883);

(b) Report of the Steering Committee on the Comprehensive Review (A/60/883/Add.1 and 2);

(c) Report of the Secretary-General on investing in the United Nations: updated terms of reference for the Independent Audit Advisory Committee (A/60/846/Add.7);

(d) Report of the Office of Internal Oversight Services on proposals for strengthening the Office of Internal Oversight Services (A/60/901).

[1] The Committee also had before it the comments of the Joint Inspection Unit on the report of the Steering Committee on the Comprehensive Review (A/60/1004) and the report of the Secretary-General on accountability measures (A/61/546), as well as the report of the Joint Inspection Unit entitled "Oversight lacunae in the United Nations system" (see A/60/860), which the Steering Committee took into account in preparing its report (see A/60/883/Add.1, para. 42).

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During its consideration of the reports, the Advisory Committee met separately with the Audit Operations Committee, the Chairperson and Vice-Chairperson of the Joint Inspection Unit, the Under-Secretary-General for Internal Oversight Services and other representatives of the Secretary-General. The Advisory Committee also had an exchange of views with members of the Steering Committee.

2. The report of the Steering Committee was submitted pursuant to paragraph 164 (b) of General Assembly resolution 60/1, in which the Assembly requested the Secretary-General, within the context of the comprehensive review of governance arrangements, to submit an independent external evaluation of the auditing and oversight system of the United Nations, including the specialized agencies, and the roles and responsibilities of management, with due regard to the nature of the auditing and oversight bodies in question. In paragraph 164 (c) of that resolution, the Assembly also requested the Secretary-General to submit detailed proposals on the creation of an independent oversight advisory committee, including its mandate, composition, selection process and qualification of experts. It should be recalled that the Assembly had previously requested a governance review in its resolutions 57/278 A and 59/264 A.

3. As indicated in paragraph 3 of A/60/883, the Secretary-General established the independent Steering Committee for the Comprehensive Review, with a membership of six international experts in the areas of governance, oversight and management of international public bodies, to oversee the process. The technical work was carried out by consultants selected through an international competitive process (PricewaterhouseCooper, supported by Dalberg Global Development Advisors).

4. The Secretary-General's comments on the review are found in document A/60/883. The Office of Internal Oversight Services has commented separately in its report on proposals for strengthening the Office of Internal Oversight Services (A/60/901). The Secretary-General presents his observations on the conclusions of the Steering Committee relating to the Office of Internal Oversight Services in annex II to A/60/883.

II. Structure and content of the report of the Steering Committee

5. The Secretary-General transmitted the report of the Steering Committee to the General Assembly in A/60/883. The report (A/60/883/Add.1-2) consists of five volumes, as follows:

(a) Volume I: executive summary and project scope, background and context;

(b) Volume II: governance and oversight principles and practices;

(c) Volume III: governance: current United Nations practices, gap analysis and recommendations;

(d) Volume IV: oversight: current United Nations practices, gap analysis and recommendations;

(e) Volume V: review of the Office of Internal Oversight Services.

Volumes I to III are contained in A/60/883/Add.1 and volumes IV and V in A/60/883/Add.2. The parent document (A/60/883) contains comments by the Secretary-General and requests for action by the General Assembly.

6. As noted in volume I of the report of the Steering Committee, the review of governance and oversight was carried out in two phases, as follows:

(a) Phase 1: establishment of best practices and comparative analysis of governance and oversight structures of the United Nations and its funds, programmes and specialized agencies against identified best practices (gap analysis);

(b) Phase 2: recommendations on improving governance and oversight structures on the basis of a representative sample of United Nations entities[2] and identification of the costs and effectiveness of the recommended changes (see A/60/883/Add.1, para. 17).

The Steering Committee indicates that the analysis "describes the wider United Nations governance and oversight status from the perspective of the United Nations system as a whole but, for the specialized agencies, with an emphasis on oversight only" (A/60/883/Add.1, para. 23). The Steering Committee makes a total of 37 recommendations, 7 relating to governance, 7 to oversight and 23 to strengthening the Office of Internal Oversight Services.

7. It should be noted that, with regard to recommendation 3 of volume IV of the report of the Steering Committee, concerning the establishment of the Independent Audit Advisory Committee (IAAC), a separate report of the Secretary-General (A/60/846/Add.7) was submitted, containing updated terms of reference for IAAC, following additional consultations, with a view to recommending action by the General Assembly. The Advisory Committee discusses this issue in paragraphs 41 to 51 below.

III. General comments

8. **The Advisory Committee notes the effort that has been made to present a report on a complex subject in response to the request of the General Assembly. The Committee did, however, experience a number of difficulties. As concerns presentation, the report is not well organized; it is also repetitive. As to its substance, the Committee points out that the quality of the report is uneven, and in some cases it lacks the empirical data needed to support its conclusions. Its discussion of governance in the United Nations, for example, is at a high level of generality and is not specific on how to implement change. By contrast, the treatment of the Office of Internal Oversight Services is more detailed.**

9. **With the above considerations in mind, the Advisory Committee endeavours, in the paragraphs below, to structure its report in such a way as to facilitate the General Assembly's consideration of the issues and recommendations contained in the report of the Steering Committee. A number**

[2] The "representative" sample included the United Nations Secretariat, the United Nations Development Programme, the United Nations Children's Fund, the Office of the United Nations High Commissioner for Refugees and the International Civil Aviation Organization (see A/60/883/Add.1, para. 24).

of the recommendations address matters that are strictly within the authority of intergovernmental bodies; others are to be the subject of future reports or study. In such instances, the Committee has recommended that consideration await the completion of the relevant studies. Further, some of the recommendations relate to matters upon which the Assembly has already pronounced itself. The Committee notes the Steering Committee's suggestion that its recommendations be adopted in their entirety. The Advisory Committee is of the opinion that each recommendation should be considered on its own.

10. Taking into account what has been stated above, the Advisory Committee has identified five issues for early decision, two concerning governance and three on oversight. The former relate to strengthening the results-based approach and accountability. The latter three relate to (a) putting into effect the Independent Audit Advisory Committee, (b) the operational independence of the Office of Internal Oversight Services and (c) the strengthening of the internal control framework and the related application of risk management on a systematic and Organization-wide basis.

11. For a number of years the Advisory Committee has been calling for stricter attention to be paid to the need to monitor and report progress on the implementation of the recommendations of all oversight bodies. Although progress has been made — for example, through the inclusion of separate sections on implementation in the reports of the Secretary-General, as well as in the reports of the Board of Auditors — continued emphasis needs to be placed on this matter if reforms in oversight and governance are to be effective.

IV. Recommendations on governance

A. Governance recommendation 1: strengthen results-based management in budgets and reporting

12. The Steering Committee asserts that, while some United Nations agencies have taken significant steps in creating a clear linkage between strategic mandates and resource allocation, in the United Nations itself:

> Budgetary inputs are not sufficiently or consistently linked to results such as operational outputs or strategic outcomes, and there are not enough robust tools in place for assessing the performance of the Organization in a systematic way other than the financial accounting, evaluations and audits. Under these constraints, discussions and decision-making on budgets and administrative issues typically revolve around detailed issues relating to individual posts and other expenditure items rather than strategic requirements (A/60/883/Add.1, vol. III, para. 18).

13. The Advisory Committee points out that results-based budgeting and results-based management are mutually supportive. The Committee has consistently advocated the improved implementation of results-based budgeting to enhance both management and accountability in the Secretariat; otherwise, there is a risk that results-based budgeting will become a paper exercise. While some progress has been made in improving budgetary processes, further concrete

measures are required to strengthen results-based management at all levels in the United Nations.

14. The Steering Committee observes that, properly implemented, results-based management provides the basis for greater transparency, more effective budgetary decision-making and improved working practices. **The Advisory Committee shares this view. Although the process of change takes time, the Committee underlines that effective implementation of results-based management can be expedited through rigorous commitment and leadership of senior management in making necessary further improvements in structures, management practices and management tools.**

15. **In the opinion of the Advisory Committee, the Steering Committee has not been specific enough regarding concrete measures that could be taken to implement change.** For his part, the Secretary-General asserts that the recommendation to improve results-based management "requires detailed analysis and the development of a plan for continuous improvement with the endorsement and participation of Member States" (A/60/883, para. 10). The Advisory Committee notes that the Secretary-General proposes to use consultant services to undertake a detailed review in order to assess how to update, improve and institutionalize results-based management in the United Nations and to align and integrate results-based management within the accountability framework of the United Nations (A/60/883, para. 10). The Secretary-General further proposes that the report on strengthening the monitoring and evaluation tools in the Secretariat, which was requested by the General Assembly in its resolution 60/260, be addressed within the context of the proposed study on results-based management (A/60/883, para. 12).

16. **The Advisory Committee agrees that a study should be undertaken. The Committee points out that the Organization has amassed a certain measure of experience on this issue system-wide. Familiarity with the United Nations system and its inherent complexities would be essential in undertaking such a study. The Committee therefore recommends the use of expertise from within the United Nations system. In this connection, in planning for the study, the Secretary-General should avail himself of the mechanism of the working group of the United Nations System Chief Executives Board for Coordination (CEB) on results-based management, consistent with the provisions of paragraph 2 of General Assembly resolution 60/257.**

B. Governance recommendation 2: strengthen overall accountability of executive management of the United Nations Secretariat

17. Under governance recommendation 2, the Steering Committee recommends that the Secretary-General establish an executive management committee to support him in his role as Chief Administrative Officer. Such a committee would be limited in size, and its membership would be a combination of executives representing key managerial and operational areas of responsibility. It may also include independent members with appropriate policy and management expertise. The committee would either be chaired by the Secretary-General or by an official designated by him, and it is proposed that it have its own secretariat. **In the Advisory Committee's view, it is entirely within the Secretary-General's prerogative to organize such a committee.**

18. The Steering Committee also recommends the strengthening of the current accountability framework for executive management (at the Under-Secretary-General and Assistant Secretary-General levels), including formal and transparent performance evaluations and sanctions for not meeting performance targets, and the establishment of an open and transparent recruitment and appointment process that relates the qualifications and experience of candidates for executive management positions (see A/60/883/Add.1, vol. III, paras. 21-22).

19. In his own comments on the report of the Steering Committee, the Secretary-General indicates that governance recommendation 2 is considered a priority. He proposes an in-depth expert review of the Secretariat's accountability framework, which could also reflect the outcome of consideration by Member States of his report on accountability (A/60/846/Add.6). Terms of reference for the review are set out in paragraph 14 of A/60/883.

20. The Advisory Committee has, in the recent past, pronounced itself strongly in favour of an enhanced accountability framework for senior management. In paragraph 57 of its first report on the proposed programme budget for the biennium 2006-2007 (A/60/7), the Committee pointed out that the idea of sanctions has been referred to frequently over the years as the means by which accountability is enforced; however, without concrete measures, little or no progress will be made. In paragraph 58 of the same report, the Committee recommended that a specific set of sanctions (up to and including termination of employment) be put in place to deal with failure to perform or poor performance on the part of senior managers at the Under-Secretary-General and Assistant Secretary-General levels.

21. **The Advisory Committee supports the undertaking of the review and recommends that the findings be included in the Secretary-General's annual report on accountability measures (see General Assembly resolution 59/272). The Committee also stresses that the review should include concrete proposals for specific sanctions to be applied in the case of under- or non-performance, as well as for recognition for outstanding performance.**

C. Governance recommendation 3: strengthen the term limits and qualifications of expert committees and the independence of their members

22. Under governance recommendation 3, the Steering Committee makes a number of recommendations aimed at promoting transparency concerning the minimum qualification requirements, nomination and selection processes, remuneration and disclosure policies for members of the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and the Independent Audit Advisory Committee (see A/60/883/Add.1, vol. III, paras. 23-28).

23. Among other things, the Steering Committee recommends that the proposed minimum qualification criteria for IAAC, as contained in volume IV, appendix 3, of its report (see also A/60/846/Add.7, appendix B, and paras. 41-51 below) serve as a model for the definition of similar parallel criteria for the Advisory Committee on Administrative and Budgetary Questions and the International Civil Service Commission. It also recommends extension to all members of the Advisory

Committee on Administrative and Budgetary Questions of the requirement under rule 155 of the rules of procedure of the General Assembly that at least three of its members be financial experts of recognized standing. In addition, the Steering Committee recommends that a majority of members should possess three of the following: (a) technical competency in understanding budgets, financial and performance reports and evaluations; (b) prior membership of an administrative and budgetary (or finance) committee of a public sector body or private corporations; (c) proficiency in strategic planning and resource allocation; and (d) prior managerial and leadership function in a large public or private sector organization.

24. As regards the International Civil Service Commission, the Steering Committee recommends that, in addition to current requirements, a majority of the members should have experience in two or more of the following areas: (a) managerial and leadership functions with a national civil service; (b) managerial and leadership functions with an international governmental or large non-governmental organization; (c) executive function in a large private-sector multinational enterprise; and (d) international remuneration comparisons.

25. The Steering Committee also recommends that, in order to ensure the highest standards for qualifications and independence, the United Nations should remunerate members of expert committees in the governance sphere in line with comparable positions in the public sectors of Member States, matching the Noblemaire principle, and that basic disclosure rules should be put in place to address potential conflicts of interest.

26. **The Advisory Committee concurs with the Secretary-General that governance recommendation 3 addresses issues that fall within the province of intergovernmental organs (see A/60/883, para. 16).**

27. **On the issue of minimum qualifications for the Advisory Committee itself, the Committee notes that the proposals by the Steering Committee are heavily weighted towards financial experience. The General Assembly is aware that the Advisory Committee deals with a wide range of subjects. In this connection, the Advisory Committee recalls rule 156 of the rules of procedure of the General Assembly, which states that members of the Advisory Committee shall be selected on the basis of broad geographical representation, personal qualifications and experience. This matter is within the purview of the General Assembly.**

28. **The Steering Committee's recommendation that the United Nations remunerate members of expert committees is a matter for decision by the General Assembly. The Advisory Committee notes that IAAC is proposed to meet 16 days per year and that the International Civil Service Commission meets 20 to 30 days per year. The Advisory Committee meets for more than nine months each year and, in addition, is on call in the intervening periods to deal with matters that may be referred to it by correspondence.[3] Accordingly, the conditions of service of the various expert committees may merit different approaches.**

[3] In this connection, the Advisory Committee notes that in volume III, appendix 2, of the report of the Steering Committee, the work period of the Advisory Committee is erroneously reported as "about half a year".

29. **With regard to the independence of the members of expert committees, the Advisory Committee points out that one aspect of this issue that the Steering Committee has not addressed pertains to the autonomy of the secretariats of such entities. Without proper procedures, the independence of the bodies themselves is at risk. Such a requirement would apply to the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and the Board of Auditors, as well as the proposed IAAC.**

D. Governance recommendation 4: strengthen procedures of the General Assembly's Administrative and Budgetary (Fifth) Committee

30. In governance recommendation 4, the Steering Committee recommends that the General Assembly give consideration to the question of whether a smaller representative body with responsibility for administrative and budgetary matters would benefit the Organization (see A/60/883/Add.1, vol. III, para. 34). **As the General Assembly has, as recently as the sixtieth session (see resolution 60/260), reaffirmed the role of the Fifth Committee, which provides for universal participation of Member States in administrative and budgetary matters, the Advisory Committee sees no merit in considering this issue further.**

E. Governance recommendation 5: improve coordination of decisions on programmes and resource allocation

31. Under governance recommendation 5, the Steering Committee asserts that

> the division of responsibilities between the Committee for Programme and Coordination, the Fifth Committee and the Advisory Committee requires very effective coordination of decision-making to prevent emergence of conflicting or underfunded mandates and to ensure effective alignment between performance reporting, administrative procedures and resource allocation (A/60/883/Add.1, vol. III, para. 35).

The Steering Committee concludes that the procedures of the Committee for Programme and Coordination could be strengthened and that significant changes would have to be made to the procedures for that Committee's deliberations and its operational guidance to enable it to fully meet its challenging role in programme governance. Such improvements, in the view of the Steering Committee, are not likely to be achieved without the concurrent implementation of effective results-based management and the integration of programme and budget decisions, on which the Committee for Programme and Coordination could provide input (see A/60/883/Add.1, vol. III, paras. 36-37).

32. **The Advisory Committee considers that the Steering Committee was not very clear or precise.** In any case, the Advisory Committee notes that, in accordance with General Assembly resolutions 58/269, 59/275, 60/257 and 60/260, the Assembly is due to consider at its sixty-second session the experiences gained with the changes made in the planning and budgeting process. **The Advisory Committee therefore believes that issues relating to governance recommendation 5 and to**

improvements in the role of the Committee for Programme and Coordination in the planning and budgeting process should be taken up at the sixty-second session in the context of the review mandated by the Assembly in its resolution 58/269.

F. Governance recommendation 6: strengthen effectiveness, transparency and independence of all committees

33. Governance recommendation 6 applies to the sample "non-Secretariat bodies" involved in phase 2 of the comprehensive review (United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF), United Nations High Commissioner for Refugees (UNHCR) and International Civil Aviation Organization (ICAO)). The Advisory Committee points out that these are intergovernmental bodies. The Steering Committee states that the trend towards expanding the membership of governing bodies should be halted and recommends that consideration be given to reducing the size of the membership of the UNHCR governing body. The Steering Committee also recommends that all four of those non-Secretariat entities adopt formal procedures for facilitated evaluation and/or self-evaluation for their governing bodies and their committees to periodically review the effectiveness of their procedures and interactions with legislative assemblies and executive management. The Steering Committee further recommends that expert committees, such as those for oversight or audit, which exist in each case, take further steps to enhance their independence and effectiveness.

34. **The General Assembly may wish to transmit these recommendations and the underlying analysis to the bodies concerned**

G. Governance recommendation 7: establish appropriate disclosure, ethics and whistle-blower policies

35. This recommendation also applies to the sample "non-Secretariat entities" involved in phase 2 of the comprehensive review (UNDP, UNICEF, UNHCR and ICAO). The Steering Committee recommends that these entities consider implementing appropriate disclosure requirements for executive management and independent expert committees, that they put into place ethics functions to drive the implementation of their ethics policies and that all staff of such entities receive appropriate training.

36. **The Advisory Committee recommends that the General Assembly take note of governance recommendation 7, while urging that steps be taken to ensure that all United Nations funds and programmes develop a common approach to this matter.**

V. Recommendations on oversight

A. Oversight recommendations 1 and 2: enterprise-wide risk management and internal controls

37. The Steering Committee points to the absence of clear management responsibility for risk management and internal controls at the United Nations (see

A/60/883/Add.2, vol. IV, sect. 4.3.1). It indicates that responsibility for risk management and internal controls should be clearly assigned to the executive management of the Organization, in line with best practices of many public and private sector organizations, as well as of a growing number of international organizations. Specifically, it recommends:

(a) The implementation of a systematic enterprise risk management framework;

(b) The assignment of responsibility for internal controls and for reporting on their effectiveness to the Secretary-General.

38. The Advisory Committee notes that in A/60/883, paragraphs 17 and 18, the Secretary-General indicates that these two recommendations are interrelated and that it would be advisable to implement them together. He proposes to establish terms of reference for the provision of appropriate technical advice on the approach to be adopted for the introduction of a performance-focused, enterprise-wide risk management framework and the necessary supporting structures, methodologies, information systems and training requirements, as well as a detailed project implementation plan. Staff recruited to manage the project would transition into risk management functions as the project neared completion. A detailed project progress report would be issued within the first resumed part of the sixty-second session of the General Assembly.

39. **The Advisory Committee concurs with the Steering Committee that the ad hoc management of risk and the absence of clear responsibility for the effectiveness of internal controls constitutes a serious gap in the Organization; these weaknesses should be addressed expeditiously. It recommends that the Secretary-General be requested to proceed with the development of the terms of reference outlined in paragraphs 17 and 18 of his report, bearing in mind the following:**

(a) **The Secretary-General is responsible for establishing a comprehensive risk management framework and for managing risk; the related audit function is to monitor and evaluate the adequacy and effectiveness of the Organization's risk management;**

(b) **The Secretary-General is responsible for the maintenance of an effective internal control regime, which is also assessed by the audit function. Responsibility for internal control activities at all levels of the Organization should be clearly assigned and built into the accountability framework.**

(c) **The Secretary-General should report to the General Assembly on the Organization's risk management and internal control framework on a regular basis.**

40. **With respect to the involvement of external experts and consultants in this process, the Advisory Committee recognizes that outside expertise may be required to provide guidance on best practices and hands-on experience in the implementation of effective enterprise risk management and internal control procedures, provided that findings of the external entities are adapted to the needs of the United Nations; however, it emphasizes that such a study should be led in-house, in cooperation with oversight bodies. Such an analysis should not be viewed simply as a report to be submitted to the General Assembly, but as an**

essential step towards the development of an accountability culture and the strengthening of the administrative processes of the United Nations.

B. Oversight recommendation 3: implement the General Assembly's resolution to establish an independent audit advisory committee

41. In oversight recommendation 3, the Steering Committee supports the establishment of an Independent Audit Advisory Committee (IAAC) in accordance with section XIII, paragraph 4, of General Assembly resolution 60/248 and section I, paragraph 4, of Assembly resolution 60/283, and recommends prompt implementation. The Steering Committee also recommends that the terms of reference of IAAC be put forward as a model for other United Nations entities to adopt for their own audit committees, or as a basis for establishing a new audit committee.

42. As noted in paragraph 7 above, the Secretary-General has submitted a separate report updating the terms of reference of IAAC (A/60/846/Add.7), which reflects the clarifications recommended in the comprehensive review in the light of further consultations and recommends action by the General Assembly. Accordingly, the Advisory Committee has based its consideration on the updated report of the Secretary-General.

43. **The Advisory Committee believes that it is for the Assembly itself to decide upon such issues as the mandate, composition, selection process and qualifications of experts of IAAC (see A/60/7/Add.13 and Corr.1-2). In the paragraphs below, the Committee makes a number of observations and recommendations, mainly of a general nature, relating to the proposed terms of reference, including the criteria for defining the independence and the financial experience of its members.**

44. **The Advisory Committee notes that the role of IAAC is to serve in an expert advisory capacity to assist the General Assembly in discharging its oversight function (see General Assembly resolution 60/248, sect. XIII, para. 4). In the opinion of the Committee, the terms of reference for IAAC as they are formulated in A/60/846/Add.7 go well beyond an advisory role.**

45. **On the size of IAAC, it is the Advisory Committee's opinion that a smaller body would allow for greater ease of decision-making. The Committee is therefore of the view that IAAC should be composed of 5 members, rather than 10.**

46. **It is the view of the Advisory Committee that the effectiveness of such a body will depend on the expertise of its members. A wide range of financial and audit-related experience is of the essence. The Committee underscores the importance of clear and verifiable qualifications and recommends that the General Assembly develop procedures to verify the qualifications of prospective members.**

47. **In the Advisory Committee's opinion, it is for the General Assembly to decide on the conditions of service of the members of IAAC (see A/60/846/Add.7, annex, para. 10; see also para. 28 above).**

48. **The Advisory Committee reiterates that the autonomy of the secretariat of IAAC (like that of the secretariats of the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and the Board of Auditors) should be ensured (see para. 29 above).**

49. The Steering Committee also recommends that the budgets of the Office of Internal Oversight Services and the Board of Auditors be submitted to the General Assembly through IAAC (see A/60/883/Add.2, vol. IV, para. 21). The Secretary-General, however, proposes that IAAC undertake an expert technical review of the oversight budget and advise the General Assembly through the Advisory Committee of its findings and recommendations (see A/60/883, annex II, para. 4). **The Advisory Committee sees merit in the procedure proposed by the Secretary-General in order to preserve the integrity of the budget review process.**

50. **Accordingly, the Advisory Committee recommends that the General Assembly request the Secretary-General, after consulting with the Board of Auditors[4] and the Office of Internal Oversight Services, and taking into account the comments of the Committee in the paragraphs above, to submit revised terms of reference for IAAC to the General Assembly at the first resumed part of its sixty-first session, which would reflect, inter alia, the following key points:**

(a) **The purely advisory role of IAAC, with no operational functions;**

(b) **The responsibility of IAAC to advise the General Assembly on issues it considers appropriate concerning the scope, content and outcome of the work of audit entities.**

51. In paragraph 17 of A/60/846/Add.7, the Secretary-General recommends that the General Assembly, inter alia, approve the terms of reference contained in annex I to the report and appropriate an amount of $917,800 under section 1, Overall policymaking, direction and coordination, and $38,800 under section 35, Staff assessment, to be offset by a corresponding amount under income section 1, Income from staff assessment, of the programme budget for the biennium 2006-2007. **The Advisory Committee's recommendations on resource requirements relating to the proposals of the Steering Committee are contained in paragraph 83 below.**

C. Oversight recommendation 4: the Joint Inspection Unit should be discontinued

52. The main arguments put forward by the Steering Committee in support of oversight recommendation 4 are contained in A/60/883/Add.2, volume IV, paragraphs 22 to 26. In the opinion of the Advisory Committee, the report of the Steering Committee does not explain with sufficient clarity the reasoning that led it to the conclusion that the Joint Inspection Unit should be discontinued.

53. During its review of that part of the report of the Steering Committee, the Advisory Committee met with the Chairperson and Vice-Chairperson of the Joint Inspection Unit, who provided additional information and clarifications. The Advisory Committee notes that the Unit has submitted its comments in response to the Steering Committee's recommendations regarding it and the Office of Internal Oversight Services; in those comments it contests many of the conclusions of the Steering Committee (see A/60/1004). The annex to the report containing those comments also contains a summary of the differences between the Steering

[4] Financial regulation 7.6 reads as follows: "The Board of Auditors shall be completely independent and solely responsible for the conduct of the audit".

Committee's proposals and the Joint Inspection Unit's recommendations for strengthening oversight, presented in its report on oversight lacunae in the United Nations System (see A/60/860).

54. In this connection, it should be noted that there is an ongoing process of reform of the Joint Inspection Unit, including a review of its statute and working procedures (see A/58/343 and Add.1-2), and the procedures for the appointment of the Unit's inspectors (see A/60/659). **The General Assembly is the competent body to deal with matters concerning the status of the Joint Inspection Unit, consistent with the latter's statute. The Assembly may wish to take up issues related to the future functioning of the Unit at the same time as its review of the implementation of the ongoing reform of that body (see General Assembly resolution 59/267).**

D. Oversight recommendation 5: set new standards for oversight of inter-agency programmes

55. The Steering Committee identifies a gap in oversight regarding programmes funded and operated jointly by a number of entities, which are usually supervised by an inter-agency committee at the senior management level. There is no provision for integrated oversight, and the participating agencies conduct audit and evaluations for their share of the programme. This fragmentation of the oversight function results in duplications and inefficiencies. It recommends that an integrated risk management framework be established and that integrated audits and evaluations be carried out by one oversight entity on behalf of all participating entities.

56. The Secretary-General indicates in paragraph 21 of A/60/883 that the introduction of mechanisms for ensuring that gaps do not exist in the provision of oversight activities for inter-agency services is a matter that falls strictly within the province of intergovernmental organs and that this also affects the role and responsibilities of the Office of Internal Oversight Services, the Board of Auditors and other oversight entities in the wider United Nations system. **The Advisory Committee recommends that the General Assembly request the Secretary-General, as Chairman of CEB, to make proposals to the Assembly on how to address this issue.**

57. **On a related matter, the Advisory Committee notes the absence of concrete proposals for improving coordination and cooperation between the oversight bodies of the United Nations system.**

E. Oversight recommendation 6: set up an audit committee for the International Civil Aviation Organization and enhance the operational independence of the internal audit function within the Office of the United Nations High Commissioner for Refugees, the United Nations Development Programme and the United Nations Children's Fund

58. The Advisory Committee notes that the sample group of entities reviewed in phase 2 includes the United Nations Secretariat, three funds and programmes of the United Nations (UNHCR, UNDP and UNICEF) and one specialized agency, ICAO.

Most of those entities are in the process of constituting audit committees or adapting the terms of reference of existing audit committees in line with best practices, particularly in respect of their independence.

59. The governance structure of ICAO, a specialized agency, is analogous to that of the United Nations General Assembly. The Steering Committee suggests that the Council of ICAO consider using the terms of reference of IAAC as a model, which should be applicable to its environment.

60. **The General Assembly may wish to transmit this recommendation and the underlying analysis to the Council of ICAO.**

F. Oversight recommendation 7: clarify responsibilities of the Office of the United Nations High Commissioner for Refugees Oversight Committee with joint responsibilities for internal audit, investigations and evaluation

61. The Steering Committee points out that the UNHCR Oversight Committee is responsible for internal audit, investigations and evaluation; however, best practice would require that the independent audit committee provide governance only for internal and external audit functions and that the evaluation and investigation functions have reporting lines to executive management, with guaranteed independence and accountability to the governing bodies. Furthermore, the Oversight Committee includes only one independent member.

62. The Advisory Committee was provided with additional information indicating that UNHCR had started work on the revision of the terms of reference of the oversight committee to include additional external members and that it intended to inform and consult with its Executive Committee during the first part of 2007 on the approach to be adopted for the establishment of an independent audit advisory committee constituted on the model of IAAC approved by the General Assembly for the United Nations.

VI. Review of the Office of Internal Oversight Services

63. The results of the review of the Office of Internal Oversight Services are contained in volume V of the report of the Steering Committee (A/60/883/Add.2).

64. The Steering Committee makes 23 major recommendations, which, for ease of reference, are summarized in the annex below (see also A/60/883/Add.2); the comments and observations of the Advisory Committee follow. **The Steering Committee has also made numerous useful observations and suggestions about possible improvements to the professional practices and working methods of the Office of Internal Oversight Services. It has also stressed the need to improve the working relationship between that Office and management and suggested methods for doing so. Many of these fall within the managerial competencies of the Secretary-General and the Under-Secretary-General for Internal Oversight Services. The Advisory Committee urges that these suggestions be given careful consideration by them.**

65. The Advisory Committee recalls that the General Assembly decided to evaluate and review the functions and reporting procedures of the Office of Internal Oversight Services at its sixty-fourth session (resolution 59/272, para. 16). **The Committee points out, nevertheless, that a number of the recommendations of the Steering Committee relate directly to the legislative mandate contained in General Assembly resolution 48/218 B, which established the Office of Internal Oversight Services with the purpose of assisting the Secretary-General in fulfilling his internal oversight responsibilities in respect of the resources and staff of the Organization through monitoring, internal audit, inspection and evaluation and investigation (see para. 5 (c) (i)-(iv) of that resolution). Any changes to the organization and structure of the Office and its functions should therefore be considered in the light of that resolution, as well as subsequent General Assembly resolutions on the mandate of the Office, such as resolutions 54/244, 59/272 and 59/287.**

66. The Advisory Committee notes that the Under-Secretary-General for Internal Oversight Services has prepared a separate report in which she makes comments on certain elements of the recommendations of the Steering Committee and provides her own proposals for strengthening the independence and status of the Office of Internal Oversight Services in the Organization (A/60/901).

67. The Advisory Committee also notes that the Secretary-General, in view of the status of the Office of Internal Oversight Services, chose not to comment directly on the recommendations of the Office contained in A/60/901. However, he makes observations on the conclusions of the Steering Committee in relation to four issues: (a) the qualifications of the experts of IAAC, as the critical success factor to enable that Committee to meet its challenging role of providing technical advice to the General Assembly; (b) the assignment of IAAC to undertake an expert technical review of the oversight budgets, advising, however, that they should subsequently go through the Advisory Committee on Administrative and Budgetary Questions for submission to the Assembly; (c) management's need for competent internal audit and assurance services; and (d) the need to ensure the existence of appropriate checks and balances to protect investigations staff, regardless of the decision taken with respect to the structure and reporting lines (A/60/883, annex II).

68. The Steering Committee, in the context of its review of the governance structure in which the Office of Internal Oversight Services operates, recommends that management acknowledge its responsibilities for setting risk tolerance, implementing controls and managing risk (see recommendation 1 in the annex below). **The Advisory Committee agrees that this would clarify the responsibilities of management to assess risk and to design and manage internal controls.**

69. The Advisory Committee notes that the recommendation follows observations in the Steering Committee's report about the perception of the Office of Internal Oversight Services as an external oversight body rather than an internal one, ensuing from the accessibility of its reports to Member States. The Committee points out that the General Assembly, in paragraph 5 (d) of its resolution 48/218 B, addressed the Office's function of support and advice to management. **The Advisory Committee considers that the role of the Office as an internal oversight body is clear: it is part of the Secretariat, and it discharges the mandates conferred by the Assembly under the authority of the Secretary-**

General. The necessary ability of the Office of Internal Oversight Services to report to the General Assembly as it deems necessary, or the access of Member States to its reports, does not derogate from the Office's responsibility to work as a support for management in its efforts to improve the functioning of the Secretariat. The Committee stresses that the Office and management must both cooperate, with management assuming responsibility in assessing and managing risk and the Office providing objective assurance and support to management in the process.

70. In its review of the organization and structure of the Office of Internal Oversight Services itself, the Steering Committee recommends that the Office focus on internal audit, contending that there are too many different activities and units within its structure, which impedes the perception of its objectivity, reduces its effectiveness and probably increases its costs (A/60/883/Add.2, vol. V, sect. 5.5.3, recommendations, para. 1). It is therefore argued that the responsibility for monitoring programme performance should be programme management's, while the Office of Internal Oversight Services should provide assurance that the function is performed accurately by auditing the process and data used. It is further argued that the evaluation activities and management consulting activities would more appropriately be positioned in the Department of Management and that the Investigations Division should be part of the Office of Legal Affairs (see recommendations 2, 3 and 4 in the annex below and A/60/883/Add.2, vol. V, sect. 5.5.3).

71. **The Advisory Committee agrees that the preparation of the programme performance report should be the responsibility of programme managers and that the function should be transferred to the Department of Management. The Committee also agrees that the management consulting function could, more appropriately, be positioned outside the Office of Internal Oversight Services. However, in view of the contribution of this function to the Secretariat's management reform effort, the Committee is of the opinion that its placement and related resources should be considered in the context of the proposals of the Secretary-General for change management and the related observations of the General Assembly in its resolution 60/260. At the same time, the Committee points out that any transfer of functions should be accompanied by the transfer of the related resources.**

72. The Steering Committee is of the opinion that evaluations should be performed by programme management and reported to the relevant body that sets the budget and approves the plans for the programme, thus locating that function within the Department of Management (A/60/883/Add.2, vol. V, sect. 5.5.3, recommendations, para. 4). In this connection, the Advisory Committee recalls that the General Assembly, in paragraph 14 of its resolution 60/257, requested the Secretary-General to entrust the Office of Internal Oversight Services with reporting to the Assembly at its sixty-first session on ongoing efforts and measures taken to strengthen its in-depth and thematic evaluation function, as well as to respond to ad hoc evaluation requests by programme managers to ensure that intergovernmental bodies are provided with high-quality professional and objective reports on the performance of programmes and activities. The report on the activities of the Office of Internal Oversight Services (A/61/264, Part I, annex III) outlines the Office's response to that request and further indicates that its report on proposals for strengthening the Office (A/60/901) contains the proposals for reinforcing its evaluation function with regard to its approach, methodology and number of staff.

73. **The Advisory Committee believes that there is merit in strengthening the capacity for evaluation at the level of programme management (self-evaluation). As for internal evaluation, the Committee recalls that, in accordance with General Assembly resolution 48/218 B, this function is carried out centrally by the Office of Internal Oversight Services. The Committee recognizes that more than one model can apply; wherever this function is placed, the Advisory Committee underlines the need to ensure that the outcomes of evaluation are taken fully into account by programme managers (see also General Assembly resolution 60/254).**

74. As to the recommended transfer of investigations to the Office of Legal Affairs (see recommendation 4 in the annex below), the Advisory Committee recalls the provisions of General Assembly resolution 59/287. The Committee also notes that the Office of Internal Oversight Services itself recognizes the need to comprehensively reassess the functions, structure and work processes of the Investigations Division and that a special review has been undertaken, to be completed by the end of 2006 (see A/60/901, para. 84). **Under the circumstances, the Committee is of the opinion that the investigation function should be maintained in the Office of Internal Oversight Services with such refinement as may be possible after the completion of the special review.**

75. Section 5.5.1 of the Steering Committee's report addresses the issue of the operational independence of the Office of Internal Oversight Services (see recommendations 5-15 in the annex below). In the view of the Steering Committee, operational independence is based on the degree to which the oversight function is free to identify the resources it requires, deploy them and report on them as it sees fit (A/60/883/Add.2, vol. V, sect. 5.5.1, principles, para. 46). In this connection, the Advisory Committee recalls that the General Assembly, in paragraph 5 (a) of its resolution 48/218 B, decided that the Office of Internal Oversight Services

> shall exercise operational independence under the authority of the Secretary-General in the conduct of its duties and, in accordance with Article 97 of the Charter, have the authority to initiate, carry out and report on any action which it considers necessary to fulfil its responsibilities with regard to monitoring, internal audit, inspection and evaluation and investigations as set forth in the present resolution.

76. The Steering Committee recommends that the General Assembly define those organizations for which the Office of Internal Oversight Services has responsibility to provide internal audit services (see recommendation 5 in the annex below). **The Advisory Committee is of the opinion that additional information would be required and that the Secretary-General should be requested to compile such information, including all organizations currently not having a separate internal audit function. Information should also be provided on cross-agency activities, such as operations under the authority of the Assembly involving more than one United Nations entity.**

77. The Steering Committee, in its recommendations 10 and 12 (see annex below), recommends that the Office of Internal Oversight Services report administratively to the Secretary-General, who may delegate the day-to-day function to an executive body that has sufficient authority and seniority within the system and has the capacity to sponsor the Office, such as the Deputy Secretary-General or an executive committee chaired by him/her. **In the first place, the Advisory**

Committee points out that, regardless of the internal administrative arrangements made, the ultimate responsibility rests with the Secretary-General, under Article 97 of the Charter of the United Nations. Moreover, the operational independence of the Office (see General Assembly resolution 48/218 B) requires that it report directly to the Secretary-General.

78. Recommendations 11, 13, 14 and 15 (see annex below) refer to the Independent Audit Advisory Committee (IAAC) and its proposed relationship with the Office of Internal Oversight Services. IAAC is also discussed in paragraphs 41-51 above, under oversight recommendation 3. **These issues should be considered in the light of the Advisory Committee's recommendation for the submission of revised terms of reference for IAAC.**

79. According to the Steering Committee, the funding structure for the Office of Internal Oversight Services limits its ability to determine where resources will be deployed and hence limits the scope of its decisions. As a result, resources cannot be allocated to areas of emerging risk, on the basis of the Office's assessment of risk, and changes in risk cannot always be responded to without its having to renegotiate individual agreements or wait for the next biennium process (A/60/883/Add.2, vol. V, sect. 5.5.1, observations, para. 47.2). The Steering Committee recommends the preparation of a budget for the Office on the basis of risk assessment and strategy for the Office. It also recommends that, once approved by the General Assembly, costs should be allocated by the Department of Management on the basis of whatever formula the Member States decide upon, removing the Office of Internal Oversight Services from the discussion on the cost allocation (see recommendations 7 and 8 in the annex below).

80. The Office of Internal Oversight Services states in A/60/901, paragraph 44, that it is not yet at full implementation of its risk assessment framework and has set 2008 as a target for ensuring that all its work plans are fully risk-based. Therefore, formulating a budget for the Office based on risk management is a mid- to long-term goal. The Advisory Committee is also cognizant of the fact that the management of risk includes a comparison of the estimated risk against associated costs.

81. With regard to the funding arrangements, the Advisory Committee notes that the Steering Committee's report does not include proposals on ensuring adequate funding arrangements for timely reimbursement by funds and programmes for services of the Office of Internal Oversight Services (see General Assembly resolution 60/259, para. 4 (c)). The Committee also recalls that the Assembly, in paragraph 15 of its resolution 59/272, requested the Secretary-General to report to it on how to guarantee the full operational independence of the Office within the context of its resolution 48/218 B. Such a report has yet to be produced. As indicated by the Secretary-General, expenditures of the Organization are currently accounted for according to the source of funding; any deviation from this principle would require specific approval by the Assembly (see A/61/264 (Part I)/Add.2, para. 3). **The Committee is therefore of the opinion that the Secretary-General should be requested to prepare a proposal taking into consideration the above points and drawing upon experience gained on cost-sharing mechanisms currently in place.**

82. With regard to granting the Office of Internal Oversight Services control over standards for hiring, promoting and terminating its personnel (see recommendation 9 in the annex below), the Advisory Committee points out that the Under-Secretary-

General already has a certain degree of discretion with regard to personnel matters, consistent with resolution 48/218 B, and set out in the arrangements stipulated for the Office in administrative instructions ST/AI/401 and ST/AI/2003/4.

VII. Recommendation of the Advisory Committee concerning resource requirements

83. The Advisory Committee notes that the report of the Steering Committee contains cost estimates in each section. **At this stage, however, the Advisory Committee would consider such estimates to be merely indicative since they represent an analysis carried out by the Steering Committee, but have not gone through the normal budgetary formulation process carried out by the Secretariat. Moreover, precise estimates will depend on such action as the General Assembly may take with regard to the proposals before it. At that time, the Secretary-General would prepare a statement of programme budget implications in accordance with rule 153 of the rules of procedure of the General Assembly; such a statement should contain precise, detailed and fully justified budget estimates.**

Annex

Recommendations of the Steering Committee on the Office of Internal Oversight Services

Reference	*Recommendation*
Section 5.5.2 Governance structure in which the Office of Internal Oversight Services operates	1. Management should acknowledge responsibility for setting risk tolerance, implementing controls and managing risk
Section 5.5.3 Organization and structure of the Office of Internal Oversight Services	2. Evaluations and management consulting activities should be transferred to programme managers and the Department of Management
	3. The Office of Internal Oversight Services should focus on internal audit, including auditing the process used by management to perform evaluations
	4. The Office should not perform investigations; that function should be transferred to the Office of Legal Affairs
Section 5.5.1 Independence	5. The General Assembly should define those organizations for which the Office of Internal Oversight Services should perform internal audit services
	6. Reaffirm that there should be no barrier to the Office's access to people or documents to perform its work
	7. Create a budget for the Office based on a risk assessment and strategy for the Office
	8. The Office should be removed from discussions on the allocation of costs for its services
	9. The Office should be granted control over the standards and decisions for hiring, promoting and terminating its personnel
	10. The Office should report administratively to the Secretary-General or an executive body to which the Secretary-General delegates suitable authority, such as the Deputy Secretary-General
	11. The Office should report functionally to the Independent Audit Advisory Committee
	12. The Deputy Secretary-General, or a designated executive body, should sponsor the activities of the Office within the Organization, including the responsibility for the settlement of disputes
	13. IAAC should provide oversight for the Office
	14. The Office should have free and open access to IAAC
	15. IAAC should advise the General Assembly on the progress of the Office in respect of its plan and significant issues arising from the activities of the Office

Reference	*Recommendation*
Section 5.5.7 Communication and reporting	16. Draft audit reports should be shared with programme management to obtain their comments
	17. The reports of the Office, after due process, should be issued directly and without interference to executive management and IAAC
	18. The practice of separate commentary by the Secretary-General on reports of the Office should cease
Section 5.5.1 Independence	19. Reports should continue to be available to Member States on request through IAAC once the reporting process has been completed
Section. 5.5.4 Human resources	20. The term limit for the head of the Office should be revisited
Section 5.5.5 Working practices	21. The working practices of the Office should be strengthened
	22. Staff skills should be assessed and a programme put in place to obtain additional resources for missing skills, including in the area of information and communications technologies
	23. A risk assessment should be performed, under a new risk assessment framework, as the basis for a revised budget